750 First Street NE, Suite 1040
Washington, DC 20002
(202) 783-4800
www.results.org

House Microenterprise Empowerment and Job Creation Act of 2011 (H.R. 2524)

H.R. 2524 was introduced by Reps. Chris Smith (R-NJ) and Bobby Rush (D-IL). To cosponsor, please contact Sheri Rickert in Rep. Smith's office (Sheri.Rickert@mail.house.gov) or Angelle Kwemo in Rep. Rush's office (AngelleB.Kwemo@mail.house.gov).

Purpose: The bill reauthorizes previous microenterprise legislation (PL 108-484) and provides means and incentives for USAID to direct substantially more microenterprise resources to the very poor.

Authorization of Assistance: The bill authorizes funding to expand "the availability of credit, savings, and other financial services to microfinance and microenterprise clients, particularly those who are unable to access such services through the private sector, and to increase the capacity of such clients to access such services through education, training, and mentoring."

Focus on the very poor: The bill reaffirms the 2004 law (PL 108-484) that mandates that 50 percent of all microenterprise funds at USAID be targeted to the very poor (defined as $1.25 per day). It also mandates that the clients who are very poor include individuals who:

- do not have permanent, secure shelter;
- are living in camps administered by the United Nations High Commissioner for Refugees for refugees and internally displaced persons;
- are victims or potential victims of severe forms of trafficking in persons or are women who are victims of or susceptible to other forms of exploitation and violence; or
- widows, orphans and vulnerable children;

Background: In 2004, Congress passed PL 108-484, which mandates that 50 percent of overall microfinance and microenterprise funding benefit the very poor. Unfortunately, USAID has not approached this target:[i]

Per Poverty Assessment Tools	FY 2009 Results	FY 2008 Results	FY 2007 Results
Microfinance	22.8%	28.50%	16.3%
Enterprise Development	23.8%	26%	20.5%
Overall	23.5%	26.9%	19.1%

Country and Regional Targets: The bill mandates that USAID create country and regional assistance targets based on poverty ratios of the countries that are eligible for assistance from the World Bank's International Development Association, i.e., the 81 poorest countries.

Background: Sub-Saharan Africa is one of the poorest regions. The population includes the highest burden and percentage of people living in extreme poverty of any developing region,[ii] with almost half the population surviving on less than $1 per day.[iii] While there are more than 300 million economically active individuals in sub-Saharan Africa, only about 20 million of them — less than 10 percent — have access to any kind of formal financial services.[iv] Despite the clear need, USAID funding for microfinance activities in sub-Saharan Africa declined from $15.3 million in FY02 to $8.2 million in FY08. In FY09, Latin America and the Caribbean received 35.6 percent of all microenterprise and microfinance funding, compared to 16.5 percent for the 19 countries sub-Saharan Africa; Colombia alone received 26.2 percent of all funding (in fact, between 1981 and 2005, the poverty rate rose in sub-Saharan Africa but fell in Latin America). Funding for sub-Saharan Africa was only slightly higher than funding to the Middle

East (14.8 percent overall), which includes just five countries, with Iraq receiving the bulk of that funding (55.9 percent). The only sub-Saharan African country to be among the top ten recipients was Liberia.

Reporting on the very poor: The bill adds the following reporting requirements:

- Efforts made to notify new potential program implementers of available assistance;
- A list of organizations supported that are reaching the very poor vulnerable populations specified, the amount of assistance provided to each organization, and a description of the microenterprise projects funded through each organization; and
- The country and regional poverty targets established by USAID and a comparison as to how assistance is being distributed relative to such targets.

Poverty assessment tools: In order to ensure compliance with the 2004 law that mandates the use of poverty assessment tools, in addition to the USAID-developed tool, the Agency much report on additional poverty assessments evaluated and which of those tools were determined to meet the requirements for accountability and transparency and approved for use.

Background: PL 108-484 requires USAID to develop and certify low-cost, accurate, and country-specific poverty assessments tools (PATs) to be used by implementing organizations to measure and report on the poverty level of their clients. It states that USAID "shall develop no fewer than two low-cost methods."

Since the 2004 law, other organizations have recognized the important use of poverty measurement tools — not just for microfinance, but also across other development sectors. An example is the Grameen Foundation's Progress Out of Poverty Index (PPI).[v] It is used globally to measure poverty levels and is statistically extremely similar in data collection and computation to the PAT.

However, the PPI is not simply a reporting tool that sends data to USAID — it is also a management tool. Many organizations do not have the tools to evaluate how well they are fulfilling their mission of reducing poverty. The PPI is designed to fill that need. Unlike the PAT, the PPI enables microfinance institutions to respond to their clients' needs by assessing the change in their poverty status over time. Data thus collected serves as a baseline from which client movement out of poverty can be measured. By using benchmarks and standards of measurement that produce reliable information, managers can build client profiles and track how they change over time. The PAT doesn't provide this information. To help incentivize microfinance providers to measure poverty levels and track progress out of poverty, and to ensure cost-effectiveness at USAID, USAID should certify rigorous tools that demonstrate accuracy in measuring impact.

Value chain interventions: The bill includes new language authorizing assistance for value chain interventions (the series of steps to bring goods to the market) that:

- Benefit primarily the very poor;
- Are integral to the success of a microfinance or microenterprise project; and
- Include measures to ensure that the value chain will be self-sustainable.

Administrative costs: "Administrative costs" of implementing partners would *not* include salary and related costs of personnel who train, mentor, monitor, and verify the accountability of groups participating in projects based on an informal savings-led model.

Background: Law instructs USAID to take into consideration administrative costs of implementing partners. However, informal savings-led groups require additional staff to provide training and financial literacy to the very poor, and these staff should not be included against overhead costs.

Funding Authorized: Funding is maintained at the last appropriated level due to House Republican rule that mandates any additional funding over the previous appropriated amount must be accompanied by specific offsets (cuts) to other programs.

---

[i] FY 09 Microenterprise Results Report to Congress
[ii] 42 percent of sub-Saharan Africa's economy is informal, the highest proportion. CARE, Access Africa, "The Power of Financial Services," 2008
[iii] United Nations, Millennium Development Goals report 2008, p.1 http://www.un.org/milleniumgoals/pdf/Sub-Saharan%20Africa.pdf
[iv] CARE. *Microfinance in Africa: State of the Sector Report: Bringing Financial Services to Africa's Poor.* 2009
[v] Progress Out of Poverty Index, Grameen Foundation. http://www.progressoutofpoverty.org